

**TASK ORDER PROGRESS
AND COST REPORT**

**LOCAL GOVERNMENT
PROGRAM**

KYRGYZSTAN

APRIL - JUNE 2001

Prepared for

Prepared by



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**TASK ORDER PROGRESS AND COST REPORT
KYRGYZSTAN LOCAL GOVERNMENT PROGRAM
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PROGRESS REPORT

In October 1999, USAID contracted the Urban Institute (UI) to implement what became a three-year local government project in Kyrgyzstan. UI is working to improve the efficiency, responsiveness and accountability of local government in Kyrgyzstan by providing training and technical assistance in financial and asset management and democracy and governance, contributing to the development of beneficial national policies affecting local governments and disseminating good practices, both domestic and international. UI has chosen Kant, Tokmok, Naryn and Uzgen as its pilot cities for activities with local impacts.

As required by Section F.5 of the Local Government Contract, below is a description of progress during the last quarter under the following task order:

WORK PERFORMED DURING PREVIOUS QUARTER

Highlights

- Draft Communal Property law submitted to parliament
- Public Budget Hearings held in 5 cities, with first-time hearings in Kara-Suu & Kara-Balta
- Preparation of auction documents and procedures for sale of communal property in Uzgen
- Presidential decrees extend local self-government status to remaining 9 Kyrgyz cities
- Roundtable on hearings and Budget-in-Brief for finance managers from cities and rayons
- Launch of community grants competition and preliminary awards given in 1st round
- Condominium training and outreach extended to Issyk Kul Oblast
- Functional assignments clarified in between city of Kara-Balta and Jayil Rayon

Activities

2.3.1.1. Introduction of Democratic Practices: Citizen Participation

Uzgen held a public hearing on implementation of the FY 2001 budget, and will hold another on the proposed FY 2002 budget. Uzgen officials have taken ownership, organized the hearing and prepared the budget-in-brief. Hearing announcements were posted throughout the city and, the budget-in-brief document was distributed in advance. On the proposed 2002 budgets, UI has agreed with city counterparts on a schedule of 6 public hearings, with training. These hearings occurred/will occur in six cities, including the new cities of Kara-Suu, Kara-Balta, and Karakol.

The quality of citizen participation in budget hearings continues to increase as budget-in-briefs are being distributed in advance of the hearings and citizens are becoming more adept at reading the budget-in-briefs and ask pertinent questions. In Kara-Balta, citizens made a clear link between the lack of resources and services provided by the City. In addition, the understanding of the tax system, and how taxes are allocated intra-oblast continues to increase because city officials are spending more time educating the citizens. UI is emphasizing inclusion of NGOs in the budget hearing process. In Kara-Suu and Kara-Balta, NGOs were informed by the city government about the hearing, and given the budget-in-brief. In Karakol, several NGOs attended UI's training on the budget process. Another meeting was held for NGOs to discuss the proposed FY 2002 Karakol budget and the budget-in-brief.



UI held presentations in Tokmok, Naryn and Uzgen to explain the criteria of the revised community grant program for awarding of grants, and to emphasize the importance of encouraging citizen participation in setting priorities and implementing projects. Administration officials, council deputies, local economic development boards, NGO representatives, condominium heads, and media attended the sessions.

Seven applications were submitted. UI witnessed a good effort on the part of city administrations to explain to citizens why it felt certain projects should be a priority and securing co-sponsorship and support from other entities. Some improvement is needed in soliciting input from citizens on setting priorities. UI emphasize this part of the program with all cities in the next round, in early July. Kant, Tokmok, Naryn, Uzgen, Kara-Suu, Kara-Balta, and Karakol are eligible, as they have held public hearings.

The grants commission, with representatives from USAID, Association of Cities, Counterpart and UI, awarded three grants: \$1,500 to Naryn for street lighting, and two \$3,000 grants to Uzgen to build public toilets and waste containers. Other proposals were rejected because they had relatively small citizen benefit, weak sustainability, or insufficient documentation on citizen participation in setting priorities. UI trained purchasing officers from Naryn and Uzgen on proper competitive procurement procedures so that they can comply with that grant requirement before work is funded.

2.3.1.2 Introduction of Democratic Practices: Transparent, fair municipal procedures established

UI worked with Uzgen city officials on a public sale of communal property. Auction procedures were approved at a session of the city council. Key elements were the compilation of exhaustive information regarding the property, as well as giving potential bidders a copy of the planned sales agreement. The city announced the auction in local media, and over loudspeakers at the bazaar.

UI worked with the Tokmok communal property management department anticipating auction of leases to bus stops. Much of the Uzgen experience on auction procedures and documents was used to advise Tokmok. Preparations are complete but Tokmok has chosen to delay the auction.

The city of Osh held an auction to lease out five land parcels and sell five. The individual who set procedures for the auction is head of the Osh city Gosregister, formerly a private broker. UI worked with him in Uzgen; he remarked that he had borrowed from our collaboration in setting up the auction for Osh.

UI held a training seminar for city officials on competitive procurement procedures under the grants program. These procedures mirror procurement procedures set forth in Kyrgyz law (and modeled on World Bank guidelines), with the exception that the grant program will allow advances for materials and does not demand a bid or performance bonds. This alteration reflects the fact that contractors in Kyrgyzstan have been unable provide money up front for materials.

2.3.1.3 Introduction of Democratic Practices: Role of elected local councils increased

Throughout the work on asset management in Uzgen, the city council has played a prominent role in approving each step of the process to grant greater legitimacy. In April the council approved the starting price and the auction procedures. Further, an Uzgen council member chaired the public budget hearing, while the mayor and rayon akim sat in the audience.

Training for council members to improve skills and awareness of their rights and responsibilities is ongoing.

UI is seeking to have council members involved directly in all areas of technical assistance and helped to ensure that council members were included on a working commission established by USAID/Chemonics to



develop a Western-style zoning system in Tokmok.

The community grants program, which empowers local keneshes as the eligible applicants, raised the profile of the councils. In each case there was a council meeting to decide on priority projects for which the city would apply to UI's program for a grant.

Asset management training, focusing on how council deputies should act as responsible owners and their rights and limitations, was held for Uzgen city, Uzgen rayon, and Osh city, deputies.

2.3.2.1 Increased Local Government Capacity: Financial Management

Uzgen's finance department used the FIS to generate its own tables and charts for the budget-in-brief document used at the budget hearing. It is also using the system to generate quarterly reports. UI's financial management team gathered data in Kara-Suu and Karakol on financial and budget issues in preparation for assistance and training for budget hearings. Kara-Suu has a small budget with most functions carried out in the city are paid for by the rayon. Karakol is in a political struggle between the city and rayon; the rayon finance department provided the city with control figures for its budget and the city council refused to adopt them. Both are challenges.

UI held training sessions on budget hearings and preparation of budgets-in-brief for finance officers from Naryn, Uzgen, Tokmok, Kant, Kara-Balta, Kara-Suu, and Cholpon-Ata. Some finance officers from the corresponding rayons also attended, as did representatives from the city of Bishkek, Ministry of Finance, and Association of Cities. Cities often have problems in getting complete information from rayon departments and agencies, thus the support of rayon finance officials is necessary to preparing budget in brief documents. All participants, but particularly those from the cities new to UI programs, benefited from peer reports. New cities asked for help in holding budget hearings and agreed on a preliminary schedule in May-July. Additional on site training and assistance will be provided to cities that will be holding their first hearing.

The second day consisted of a round table discussion of city-rayon financial relationships with hypothetical functional and revenue assignments, followed by a review of cities' aspirations to have their own treasury departments and/or tax inspectorates. City finance officers were unanimous on the need to have administrative control over inspectors responsible for gathering taxes that accrue to the cities. Much discussion focused on ways to secure this control within the Kyrgyz legal framework and the institutional framework of the State Tax Inspectorate.

Public budget hearings were held in Tokmok, Kara-Suu, and Kara-Balta. This was the second budget hearing held in Tokmok, but the first in Kara-Balta and Kara-Suu. Training on the budget process and how to hold a public budget hearing was held in both new cities, and in Karakol, in preparation for the hearings. Advanced training in Tokmok was on the financial process. UI also introduced its computerized financial information system to formulate the budget-in-briefs.

UI initiated a study of the Treasury operations in the rayons and how they impact cities. Naryn and Kara-Balta were chosen as study sites because of their different situations. Naryn has had its own budget for several years, as opposed to Kara-Balta which only received their own budget in FY 2001. Meetings were held with the Rayon Treasury offices, City Financial Management Offices, City budget institutions and Tax Inspectorates in both cities. The treasury operations in the two cities are vastly different and provided an opportunity to evaluate what procedures work efficiently and which need to be improved. A meeting with the National Treasury office is planned in early July to discuss the findings thus far and possible areas for improvement. TDY Thomas is working in this area and will produce a report prior to departure.



2.3.2.1 Increased Local Government Capacity: Condominiums

The Chui Oblast condominium association registered 7 new condominiums with a total of 721 units. In Karakol, the association trained officers from 7 condominiums, council deputies, city administration officials, and housing maintenance company officers. Condominiums in Karakol are planning to establish their own association. UI is working with Counterpart's Civil Society Support Center in Karakol to provide information to condos. Training in Balykchi was difficult, influenced by past poor management practices and de facto subordination to the local akim.

The Jalal-Abad Oblast condominium association delivered 6 training sessions for condo boards and managers, and the Osh association held 2. Both associations also have secured agreement among their constituents for enforcing a dues structure, a condition as UI plans further cooperation with these organizations. UI has withheld support of the associations until they demonstrate membership support and some sources of additional funding. (Chui has a limited dues structure). Jalal-Abad is working with the Association of Accountants and Auditors to provide training for condominium accountants.

With Yuri Shalamov, Head of the Aikyn consumer rights society and an aide to MP Alevtina Pronenko, UI made recommendations on ways to improve the Condominium Law, and promote competition among housing maintenance services. The resolution passed by one house of parliament, targeted utilities and ZhEKs as having violated their responsibilities to the population. It calls for promotion of condominiums.

UI is working with Soros Foundation – Kyrgyzstan (SFK) on the “Best Condominium in Kyrgyzstan” competition as well as a media campaign addressing condominium issues. The campaign is to be funded by SFK, and partner local TV studios with the associations to produce a talk show. UI will provide quality control over content. The “Best Condominium” competition is near completion. 59 condominiums submitted documents, including: Tokmok-4, Bishkek-10, Osh-27, Jalal-Abad-6, Karakol-3, Naryn-4, Mailuu-Suu-2. UI trained on-site monitors to review each condominium. Awards will be made in July.

UI contracted with the Association of Cities to conduct a UI-designed survey of condominium officers, local government officials, and regular citizens regarding the state of housing and understanding of condominium issues. Initial review of the completed survey shows a positive view of condominiums and how they have improved living conditions. The results will be used to inform and make recommendations to local and national government officials regarding the development of housing, and to help regional associations develop programs and tailor services.

UI also established a new program to promote information exchanges among condominiums from all over Kyrgyzstan: the “Best Practice Exchange Program”. Condominiums submit an application outlining good management practices which they have adopted, a guarantee to host a visiting condominium chairperson or board member for 1-2 nights, and a guarantee to hold a round table discussion to present what they learn if given the opportunity to travel to another city to visit and learn from other condominiums. UI will cover only direct travel costs. The program will be implemented on a continuing basis over the summer.

2.3.2.1 Increased Local Government Capacity: Asset Management

UI worked with the Uzgen city government to institute a more formal, open set of procedures for the sale of a city-owned building and to prepare a package of documents which included: a copy of the sales agreement; auction procedures; copies of technical information about the building and land parcel; and a technical description of the utilities servicing the parcel. UI also helped to put into place investor-friendly guarantees for potential buyers, including a sales agreement that would permit any uses of the property after the sale except for those that violate ecological and public safety norms – an effort to provide zoning guidelines for



a specific property. The city had problems confirming with the State Land Registry (Gosregister) property rights to the building.

Two events intervened to postpone the auction. First, no participants registered for the auction. UI recommended that the city set the starting price at half the value of the property set by a commercial appraiser but city officials, set the best value as a starting price and learned the hard way about market value. Second, the city received a letter of protest from the Oblast Prosecutor on behalf of the State Property Fund (SPF), which claimed exclusive right to control any sale of public property, even if owned by a local self-government. Though Kyrgyz law supports cities rights to sell its property – and other cities have done so – Uzgen chose to avoid a political battle.

UI advised Tokmok on their planned auction of leasing use rights to bus stops and not to include requirements to provide social services such as a public toilet or telephone. UI conducted a brief study of the situation concerning land ownership in Tokmok, and its relationship to communal property.

UI continued its cooperation with Gosregister on ownership issues, joining the World Bank property rights registration project mission on its inspection of systematic registration in Tokmok and Alamedin rayon, and commented on the latest version of how to handle special cases, including registration of communal property and multi-unit buildings. UI provided Chemonics with language reflecting how Kyrgyz land legislation determines ownership of land parcels appurtenant to buildings and affirms rights to register ownership of urban land at no cost.

The draft communal property law was introduced in April to Parliament. There was pressure from the President's Administration to pass the law, and it has been discussed at a joint session of two parliamentary committees. A key issue in the draft law is whether local governments can sell their communal property on their own authority. The draft version from the President's Administration includes reference to legislation that gives the SPF a role in any disposition, a change inserted after UI had worked on the draft law.

The President signed a decree conferring local self-government status to the nine cities that did not have this status, including the country's second and third largest, Osh and Jalal-Abad. The decree calls for the state to transfer property to local governments in each of these cities. UI will provide assistance to the extent possible to cities that request it. Osh has expressed interest.

I.R. 2.3.2.2 Increased Local Government Capacity: Development of Effective Local Government Training

Training on preparations for public budget hearings was held in Uzgen, Tokmok, Kara-Suu, Kara-Balta, and Karakol with participation of a total of 50 kenesh deputies, 23 from city administration, and representatives from rayon finance departments, NGOs and neighborhood committees. Further, training on budget hearings and preparation of budgets-in-brief was held for officials from seven cities and rayons.

Training of Trainers was held in Bishkek for trainers from city governments, regional NGOs, Ministry of Finance, UI staff and the private sector. The participants will enlarge the number of trainers providing training at UI's standards and expands the pool available outside trainers.

I.R. 2.3.2.3 Increased Local Government Capacity: Information Sharing Increased/Assn. of Cities

UI brought Uzgen and Tokmok together to exchange information on practices for renting communal property. An e-mail network is forming among city communal property management professionals, facilitated by email linkups. UI's analysis of communal property in Tokmok was distributed to other cities, and an MP and a member of Karakol's city council invited UI to present its programs in financial management and asset



management to city officials in this city. The finance officers meeting also facilitated information sharing among peers.

UI launched a survey of how local self-government cities operate. The first part of the survey collects information on cities' financial management systems, how councils function, housing issues, and management of communal property. The second part, personal interviews with council members and local officials, is designed to identify priorities and attitudes.

UI's website (www.ui.kg) is up with Russian and English versions. UI also produced its first issue of what is planned as a monthly newsletter on developments in local government in the country and UI's project activities. Further, UI sent periodic written notices to the cities where it is now working regarding progress in parliament of the draft communal property law.

UI is helping the Association of Cities develop a strategic plan and set priorities for future activities. The Association of Cities held a large conference on 'harmonizing local government legislation' at Issyk Kul, funded by Soros Foundation-Kyrgyzstan. The conference allowed local government officials to share information among themselves and with MPs about city problems. Conference recommendations will be compiled as part of a program to evaluate legislation.

I.R. 2.3.3.1 Increased Local Government Authority: Intergovernmental Roles Clarified

The President's Administration presented the draft laws "On Local State Administration and Local Self-Government" and "On Communal Property" to parliament. The communal property law, which UI helped draft, would clarify cities' rights to sell their communal property.

UI's round table with finance officers from cities and rayons, opened discussion on current functional assignments, and viewpoints on the best way to provide services to citizens of cities. This is part of UI's plan to get overlapping levels of government talking about a more formal delineation of authority. At the conference held by the Kyrgyz government on local self-government, the President announced a decree that changed the status of nine cities to 'local self-government'. The decree grants limited authority (the state retains more control than it has in current local self-government cities), but does identify 'local' functions. It also states that all cities, including Bishkek and Osh will hold public budget hearings.

As cities prepare FY 2002 budgets, the pressure builds for cities and rayons to clarify their expenditure responsibilities. In Kara-Balta the Jayil Rayon Akim, the rayon financial manager, and the city mayor and financial manager, agreed that the rayon would transfer responsibility to the City for culture, housing, and utilities, and left the education issue open. UI will hold round-tables in August and September with appropriate city, rayon, and oblast officials to discuss expenditure responsibility and grant distribution.

I.R. 2.3.3.2 Increased Local Government Authority: Local governments have greater control over revenues

UI is working with the Barents Group advisor on property tax. The GOK has said that it will not rush ahead with the implementation of a pilot property tax in Tokmok. There seems to be agreement among all parties that this will be a city tax with rates set by city councils and open records.

The communal property law, if adopted as first proposed, clearly assigns all revenues from such property to local self-governments, whereas present local governments are sometimes required to turn over, or share, their revenues to/with rayon state administrations.

The transfer of expenditure assignments from rayon to city in Kara-Balta was coupled to a plan to increase city



revenues; it requires over ten million soms to fulfill the functions it is being assigned. The City proposed financing these additional costs by introducing a symbols tax to be wholly retained by the city, reallocating revenues from the retail tax to increase the City's share from 10% to 90%, and increasing the City's receipt of revenues from the land tax on legal entities from 0% to 100%. The rayon akim expressed approval of the City's FY 2002 budget.

I.R. 2.3.3.3 Increased Local Government Authority: Local governments inform national policy dialogue

Through round table discussions conducted by the Association of Cities, local governments have made recommendations on 'harmonizing local self-government legislation. UI is working with the Association itself to try to focus its efforts on listening to its constituents and bringing their concerns to discussions of national policy and legislation.

Upon encountering problems with sales of communal property, Uzgen and Tokmok officials, along with UI, with officials in the President's Administration and the Association of Cities to resolve the impasse. Subsequently the President's Administration urged parliament to move up action on the law on communal property in its agenda. Uzgen, Kara-Balta, and Karakol city governments have contacted their MPs about passing the communal property law.

DELAYS, FINDINGS, EVENTS, TRENDS

The regional condominium associations are facing problems similar to all NGOs in Kyrgyzstan: getting financial support from own sources. UI is reducing its financial support of associations and has made the smaller sum contingent on their finding even small sources of own revenues (i.e. membership dues). There may be an opportunity for them to assist a World Bank heating project, which would provide some funds.

Pressure from the State Property Fund through actions by the Prosecutor's Office against Uzgen and Tokmok, appears to be a struggle for control between a national agency and relatively weak local governments. Reluctance by the President's Administration to uphold the cities' property rights limits the ability of cities to exercise them; city governments tend to avoid confrontation with the national government on any issue, including communal property.

Local officials see the communal property law as a way to overcome this. There are problems: some MPs want the law to address issues outside of physical property; parliament will be in recess during July and August; and the President's Administration inserted a reference to an old law that might be construed as giving the State Property Fund authority to decide what properties can be sold. This is contradicted by passages immediately before and after it, which give this authority clearly to local councils. UI must foster with national government officials and MPs an understanding of the value of letting cities manage their assets and decide on their own authority about disposition of property.

The changed status of 9 cities - Osh, Jalal-Abad, Talas, Balykchy, Sulukta, Kara-Kul, Kyzyl-Kia, Mailuu-Suu, and Tash-Kumyr – widens the scope of the LGI project. These new cities have advantages such as separate offices of the treasury, tax inspectorate and more responsibilities regarding budgets and provision of services in the city. The first task will be negotiating between city and national governments the transfer of property from state to communal ownership. UI has been asked to assist this process in the larger cities of Osh and Jalal-Abad.



WORK PLANNED FOR NEXT REPORTING PERIOD

- Preparation of a nine-month workplan
- National conference on communal property issues and management for national government officials, members of parliament, local government officials, and municipal property managers
- Dissemination of the “Asset Management Toolkit” to all cities in the Kyrgyz Republic
- Roundtable discussions between rayons and cities to clarify expenditure assignments, revenue sharing formulas, stability in revenues, and interpretations of the budget law
- Work in new local self-government cities to include: building asset management capacity, preparation for public budget hearings, and improving the interface between local government, citizens, and NGOs
- Pro-active collaboration with members of parliament on laws that affect the financial and legal environment for local self-government
- Second round of community infrastructure grants evaluated and awarded; work completed from funds granted in the first round
- Cooperative activities with the Association of Cities in information dissemination and member services
- Completion of a strategic communal property asset management plan in Tokmok
- Completion of “Best Condominium” competition in partnership with Soros foundation
- On-going collaboration with Barents on introduction of a property tax, with a property tax workshop for NGOs and local government officials
- On-going collaboration with Chemonics on urban land issues
- Completion and compilation of LSG Cities Survey and Condominium Survey

SPECIFIC ACTION REQUESTED

No specific actions are requested this quarter.

UP-TO-DATE SCHEDULE OF WORK

Work is continuing in accordance with the approved work plan.